

Varieties of Institutional Investors and National Models of Capitalism: The Transformation of Corporate Governance in France and Germany

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This article examines the rise of foreign ownership in France and Germany. I argue that the firm-level institutional arrangements of workplace organization constitute the most significant variable to account for the greater attractiveness of French firms over their German counterparts to short-term, impatient capital—namely, hedge and mutual funds. I demonstrate how key notions of the Varieties of Capitalism perspective—institutional interaction, institutional latency, and the distinction between institutional framework and the mode of coordination that follows from these institutions—provide important theoretical insights to account for the different structures of foreign ownership in France and Germany.

Keywords: *comparative corporate governance; institutional analysis; institutional investors; organization of work; Varieties of Capitalism*

INTRODUCTION

The article examines the transformation of the system of corporate governance in France and Germany from the mid-1990s to 2005, a period of tremendous change in European finance. The topic of corporate governance—the system by

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which firms are controlled and operated, the rules and practices that govern the relationship between managers and shareholders, and the overall process by which investment capital is allocated—has become an important issue for policymakers and scholars in recent years in the wake of financial scandals in Europe and in the United States.¹ The increasing importance of corporate governance in Europe, however, goes beyond the advent of recent acts of corporate malfeasance. It reflects the importance of critical trends with serious political implications for advanced European capitalist economies.² Tremendous changes have pushed these systems toward the adoption of greater shareholder value in the strategy of companies in recent years.³ Will the globalization of finance and investment lead to convergence across European systems of corporate governance along the lines of the American model?

The research question of this article on France and Germany is two-pronged: to account for the different patterns of transformation of the two systems of corporate governance, and to assess its implications for their respective national models of capitalism. I focus on the rise of foreign ownership as a key indicator of shifts in corporate governance. Two critical methodological considerations serve as motivation for the research question of this article. First, how does one assess the advent of institutional change in corporate governance? As Campbell (2004) reminds us, we often mistake evolutionary shifts for more revolutionary developments and vice versa.⁴ The absence of an analytical framework to distinguish between patterns of institutional change leaves us powerless to distinguish between them and to understand their consequences. Changes in corporate governance might be a more recent development in continental Europe, but advanced capitalist economies underwent substantial institutional change in many areas in the last 25 years without resulting in either internally revolutionary transformation or in cross-national convergence.⁵ Second, the current interest in accounting for institutional change is understandable given the predominant consensus that institutions do matter for economic, political, and social outcomes.⁶ The design of institutional frameworks is seen by scholars and policymakers as the key variable for important public policy issues.

The argument presented in this article is the following. First, an assessment of the consequences associated with the rise of foreign ownership and the growth of securities markets in France and Germany requires a sophisticated differentiation between investors. The rise of foreign ownership in the form of institutional investors pushing for a greater shareholder value orientation cannot by itself constitute a radical transformation of European corporate governance. I distinguish primarily between pension and mutual/hedge funds. Pension funds constitute long-term investors that acquire an equity stake in corporations primarily for diversification purposes; mutual/hedge funds seek to maximize assets under their management as they possess a shorter term horizon and operate under competitive pressures to beat market benchmarks. The importance of this

distinction between different types of investors is primarily driven by its implication for the mode of coordination of firms. As Hall and Soskice (2001) have argued, access to patient capital constitutes a key feature of coordinated market economies, as opposed to liberal market economies that rely on short-term, risk capital. The investment strategies and time horizons of mutual/hedge and pension funds have different consequences for the sustainability of national models of European capitalism.

Second, I argue that the firm-level institutional arrangements of workplace organization constitute the most significant variable to account for the diverging ability of French and German firms to attract funds from Anglo-Saxon institutional investors. Mutual and hedge funds possess short-term investment strategies and time horizons. They also exhibit firm-specific preferences since the performance of their portfolio is shaped by the behavior of a smaller number of companies than is the case for pension funds. The degree of fit between their preferences and the firm-level institutional arrangements of advanced capitalist economies reflects the ability of the CEO and top managers to reorganize the workplace in a unilateral fashion. It fits well with the corporate decision-making process in France, which is management-led and excludes the workforce. French firm-level institutions are characterized by the concentration of power in the CEO that, in turn, allows for a rapid reorganization of the workplace under the guidance of a small number of corporate officials.⁷ The strategies of mutual and hedge funds, in contrast, do not fit well with the firm-level institutions found in Germany. Firm-level institutions impose several constraints on the ability of management to develop and implement strategies in a unilateral fashion. Several legal obstacles stand in the way of a rapid and unilateral reorganization of the shop floor. Adjustments to external pressures in Germany are the result of negotiation between management and employees.⁸ As a result, hedge and mutual funds—two categories of short-term, impatient capital—displayed an overwhelming preference for France over Germany as an investment site.

I draw on notions from the Varieties of Capitalism (VoC) theoretical perspective to understand both institutional transformation and the maintenance of differences between contemporary capitalist economies. The VoC perspective emphasizes the critical importance of patterns of institutional complementarities across the various sub-spheres (finance and corporate governance, industrial relations, innovation system, and inter-firm relations) of the economy that lead to diverging forms of behavior on the part of economic actors. The key insight is that the impact of an institution cannot be studied in isolation as it is mediated by its interaction with other features of the national institutional framework, therefore implying that different types of institutional fit are possible.⁹ In other words, national institutional frameworks engender interaction effects that shape in different ways the behavior of economic actors according to the particular combination of institutions found in the national setting. The outcome is

that developed economies are distinguished by their specific configuration of interdependent institutions.¹⁰ Moreover, these national institutional configurations of interlocking and interdependent institutions reinforce each other, thereby proving resistant to change. Finally, the VoC perspective contends that superior economic performance and the development of competitive advantage result from the extent to which patterns of institutional complementarity support the development of firm competencies.¹¹ In other words, each institutional feature fits with the others and makes them more effective than they would be on their own. The notion of competitive advantage is institutionally based as firm performance lies in the achievement of a proper fit between their organizational features and the requirements associated with specific market niches. The presence of institutional complementarity constitutes a source of economic efficiency as it contributes to solving coordination problems since the actions a firm takes in one sphere of the economy are contingent on the actions of others in different spheres.¹² As a result, different patterns of institutional fit across nations should be good at excelling at different types of activities, thereby leading to different types of specialization.¹³

However, the VoC theoretical perspective has come under attack in recent years. The broad line of criticism is that the tools developed by comparative political economists in the last twenty years have provided us with a better understanding of institutional resiliency, but have not been as helpful in accounting for institutional transformation.¹⁴ The theoretical insights of the concept might be quite useful in accounting for stability, but they are far too static to account for institutional discontinuity. This theoretical challenge to the VoC perspective is comprised of several elements. First, processes of incremental and continual institutional change can lead to significant discontinuity without requiring dramatic disruptions.¹⁵ Rather than radical change breaking current patterns of institutional complementarity and re-shaping the preferences of actors, the process of institutional transformation often results from ongoing and accumulating dynamics that involve small adjustments. Thus, institutional transformation frequently is an evolutionary process that unfolds in an incremental manner and without major disruptions over long periods of time and resulting in profound change.¹⁶ Second, and related to the previous line of criticism, the transformation of the dynamics found in capitalist societies can take place without formal institutional change. A process of functional conversion, whereby institutions are redirected to new purposes, can occur in the presence of formal institutional stability.¹⁷ In other words, the practice associated with an institution can change without a similar transformation in its formal structure. Major changes in institutional practices are coupled with the stability in institutional structures. Third, the environment faced by firms is increasingly characterized by the presence of institutional hybridization with the consequence that advanced capitalist economies might no longer fit neatly into a single model.

This process of hybridization can result from firms borrowing from the features of different models as the process of institutional adoption tends to be piecemeal rather than full scale.¹⁸ These three lines of criticism constitute a serious challenge. If the VoC perspective's ability to explain institutional change is less successful than its account of divergence, its theoretical contribution would be seriously weakened.

What does my analysis of the investment patterns of institutional investors in France and Germany entail for the VoC theoretical perspective? The argument presented in this article testifies to the importance of national institutional frameworks for the study of institutional change. First, the transformation of corporate governance in France and Germany was deeply influenced by the character of existing institutional arrangements. Domestic institutions interact to complement each other and consequently cannot be studied in isolation regardless of whether one is analyzing the presence of stability or the occurrence of change in the broader institutional framework. The effects of a single institutional variable vary according to the presence of other institutions in the economy.¹⁹ This is particularly true since institutional change is almost invariably piecemeal rather than full scale, thereby highlighting the importance of the interaction between the new institutions and those already in place. I recognize that processes of institutional conversion and hybridization can, and do, occur. Nonetheless, their occurrence still requires an argument to assess whether institutional conversion or hybridization constitutes a revolutionary or evolutionary transformation. The notion of interaction among the various elements of an institutional framework represents a highly helpful indicator to assess the consequences associated with the process of institutional transformation. Secondly, institutions are characterized by an element of latency, their effects and importance changing over time. In the case of France, for example, the firm-level institutional arrangements that are proving highly attractive for short-term, impatient capital cannot be held solely responsible for the inability of companies to access long-term finance since they have been largely stable over the last three decades. The present inability of firms to secure long-term, patient capital is a recent phenomenon, but the institutionally based concentration of power in the CEO is not something new. Prior to the mid-1990s, the CEO's power was associated with the provision of long-term, patient capital in the form of bank loans since policymakers impeded the development of direct (bonds and stocks) finance, fixed interest rates at low levels, and implemented preferential credit policies.²⁰ The concentration of power in French firms, as embodied in the institutional arrangements of workplace organization, came to be conducive to short-term capital in the second half of the 1990s because of the deregulation of the banking system and the decision of long-term domestic shareholders to sell their holdings—as well as by the advent of the international strategy of institutional investors. International shifts came to have a substantial impact after internal changes in corporate governance.

Finally, and perhaps more importantly, I highlight in this article the need to distinguish between institutions and the mode of coordination that follows from these institutions.²¹ I argue that the divergent patterns of investment of institutional investors were deeply influenced by differences in the power structure of French and German firms. But power concentration (diffusion) has been a stable feature of French (German) firms at the same time as tremendous changes in several institutional spheres took place. It is important to note that while institutions have undergone tremendous change in the two countries, the effects of this change on the mode of coordination of large blue-chip firms have been marginal.²² In particular, the process by which large French and German firms develop and sustain their innovative capabilities has remained largely unchanged despite important changes in corporate governance. The coordination of activities in French firms is characterized by the vesting of unilateral authority in top managers and senior technical staff. The bulk of the workforce does not contribute to the development of the organizational capabilities of the firm.²³ In the coordination of activities of German companies, by contrast, authority is shared with the bulk of the workforce to a high degree. The development of innovative capabilities takes place on the basis of the long-term contribution of skilled employees through institutionalized career paths.²⁴ This stark divergence in the development of innovative capabilities remains stable despite impressive changes in corporate governance. Thus, the presence of institutional hybridization and the occurrence of functional conversion are not sufficient to conclude that countries and firms are experiencing revolutionary developments that will undermine their nationally specific capacities for strategic coordination.

The roadmap for this article is the following. First, I provide an overview of the changes in the external environment in which French and German companies are embedded. Second, I empirically analyze the transformation of these two systems of corporate governance by highlighting the differences in the nature of foreign capital attracted by domestic companies in the two countries. Third, I highlight the critical importance of the institutions of workplace organization to account for the direction of change of corporate governance. Fourth, I conclude by presenting the theoretical implications for the analysis of institutional change that emerges from the study of French and German corporate governance.

I. STRUCTURAL CHANGES IN EUROPEAN FINANCE

The French and German systems of corporate governance have experienced an important transformation resulting from a series of cumulatively far-reaching changes. These developments have decreased the importance of bank loans as a source of finance and have heightened the importance of stock markets. The two systems of corporate governance were previously characterized by three features. First, corporations had a high debt-equity ratio, i.e., bank loans were more

important than stock issues as a source of external finance.²⁵ Second, the ownership structure of blue-chip firms was highly concentrated in the hands of friendly cross-shareholdings among companies, a large owner in the form of a family firm, banks' direct share and proxy voting in Germany, and extensive public sector in the French case.²⁶ Third, the market for corporate control was fairly restricted.²⁷ In particular, hostile takeovers were a rarity.

The bank-based system of corporate governance of the two countries crumbled under the impact of several factors. First, their financial system underwent a massive process of deregulation: the use of credit ceilings as a means to control inflation has been replaced by the discipline of central bank independence and of high real interest rates, capital controls have been removed under pressures from the EMS and the suspension of the dollar's convertibility into gold, and the bond market has been deregulated.²⁸ Second, the transformation of corporate governance is the result of developments that have raised the importance of equity capital. Two key factors account for the rise in importance of the stock market capitalization of firms. In the first place, the removal of capital controls by European policymakers enabled institutional investors to pursue a strategy of international diversification of their assets. The growth of foreign equity held by American institutional investors increased from \$128.7 billion in 1988 to \$178.7 billion in 2000.²⁹ The resulting impact of these developments on the strategy of large companies should not be underestimated. Institutional investors have expressed clear preferences for the adoption of shareholder value practices that maximize return on equity. Moreover, the rise of foreign ownership in the French case came at the expense of domestic cross-shareholdings among large domestic firms.³⁰

Another development that has increased the importance of securities markets is the changing conditions associated with the successful completion of a takeover bid in the United States in the last decade. The importance of equity swap, whereby companies issue additional stocks to pay for the shares of the target firm, has increased dramatically. In 1988, nearly 60 percent of the total value of deals over \$100 million in the United States was paid for entirely in cash. The similar figure for deals paid in stock was less than 2 percent. By contrast, about half of the value of large deals in 1998 was paid entirely in stock—and 17 percent was solely financed in cash.³¹ What is the significance of the changing characteristics of takeover activity in the United States for European corporate governance? The importance of takeover activity in the United States for European corporate governance is intimately related to the process by which firms build their innovative capabilities. Large French and German firms are engaged in a process of institutional arbitrage.³² They have sought to pursue radical types of innovation, thereby gaining access to new innovative capabilities, through the acquisition of companies in the United States via takeovers. Firms with higher stock market capitalization possess a substantial advantage in the global merger marketplace in using equity swap.³³

II. THE TRANSFORMATION OF FRENCH AND GERMAN CORPORATE GOVERNANCE: AN EMPIRICAL EVALUATION

The previous section has highlighted changes in the external financial environment of French and German firms. Anglo-American institutional investors are operating in the new European financial environment that is characterized by the importance of stock market capitalization for blue-chip companies. The greater mobility of capital and the strategy of international diversification of Anglo-American institutional investors, however, mask substantial divergence in regard to the composition of foreign ownership in France and Germany. First, the growth of securities markets in France has been far more impressive than that of Germany. The traditional measure of the importance of securities markets in an economy is the aggregate market capitalization of domestic companies divided by the gross domestic product. These figures on stock market capitalization are presented in table 1. Equity finance was marginal in continental European countries associated with an insider model of corporate governance until the mid-1990s. The rates of growth of the stock market capitalization among advanced industrialized countries in the second half of the 1990s did not exhibit a common trajectory. France experienced a bigger explosion of its securities markets than Germany and Japan during the bull market of 1995-2001. Moreover, the relative decline of stock markets between 2000-2001 and 2003, and the reversal of this trend since 2003, also put France in a very favorable position. However, it is important to note that the growth of stock markets does not constitute the research question of this article. The focus is on the composition of foreign ownership of French and German companies under a new financial environment of heightened importance for the level of their stock market capitalization. Second, foreign ownership in France has grown significantly during the 1990s while the German picture is best characterized by a more modest progression. The foreign penetration of the French market increased from 17.4 to 36.1 percent from 1990 to 2000. The growth of foreign ownership in Germany, by contrast, remained largely stable from 22.7 to 23.6 percent for the same period.³⁴

Third, an analysis of financial markets in Europe requires a nuanced understanding of the preferences and strategies of investors. Theoretical inferences cannot be drawn simply from the growing importance of capital mobility across borders since Anglo-American institutional investors do not constitute a monolithic bloc. I distinguish primarily between pension versus hedge and mutual funds. These three categories of investors possess preferences and time horizons that can clash or fit with the institutions of European companies. Pension funds constitute long-term investors that acquire an equity stake in corporations primarily for diversification purposes. The incentives of managers of pension funds lie in the generation of a certain minimum amount of revenues required

Table 1
Evolution of Market Capitalization as Percentage of GDP, 1980-2004

	1980	1985	1990	1995	1999	2001	2002	2003	2004
France	8	15	26	35	105	103	68	93	110
Germany	9	29	22	28	68	61	35	54	62
Japan	36	71	99	81	102	73	52	74	N/A
United Kingdom	37	77	87	98	198	166	114	148	178
United States	48	57	56	78	181	152	106	134	150

Source: World Bank, *World Development Indicators* (New York: World Bank, various years); and Christoph Van Der Elst, "The Equity Markets, Ownership Structures and Control: Towards an International Harmonization?" in *Capital Markets and Company Law*, ed. Klaus Hopt and Eddy Wymeersch (New York: Oxford University Press, 2003), 11.

to cover regular payments to retirees. Mutual funds, in contrast, possess a shorter term horizon as they face greater liquidity concerns, since funds under their management are redeemable on demand by investors. Mutual fund managers seek to maximize assets under their management by picking firms undervalued in financial markets. Hedge funds are largely unregulated limited partnerships characterized by arbitrage strategies, high turnover and aggressive trading, and heightened managerial incentives to outperform financial benchmarks. Hedge funds collect funds from wealthy and more sophisticated investors willing to assume higher levels of risk for potentially superior returns.

The growth of foreign ownership in France and Germany has been characterized by substantial divergence in regard to its composition. Large firms in the two countries have been a favorite destination for the international diversification strategy of pension funds.³⁵ This reflects the fact that corporate law in the two countries provides an adequately acceptable level of financial transparency, a sufficient level of protection for minority shareholders, and that the quality of law enforcement is excellent.³⁶ Mutual and hedge funds, on the other hand, have primarily chosen France over Germany as a site for investment in continental Europe. I argue in the next section that the fit between the investment strategies of these two categories of investors and the institutional arrangements of advanced industrialized countries depends on the ability of the CEO and top managers to reorganize the workplace in a unilateral fashion. They fit well with the decision-making and adjustment processes in France, which is management-led with the exclusion of the workforce from the decision-making process. Workers possess fewer opportunities to block managerial initiatives.³⁷ French firm-level institutions are characterized by the concentration of power in the CEO that, in turn, allows for a rapid reorganization of the workplace under the guidance of a small number of corporate officials. The strategies of mutual and hedge funds, in contrast, do not fit well with the firm-level institutions found in

Germany. Those institutions impose several constraints on the ability of management to develop and implement strategies in a unilateral fashion. The process of adjustment in Germany is the result of negotiation between management and employee representatives.³⁸ The rest of this section is divided in two parts. First, I provide an overview of the differences between these three groups of investors. Second, I present data on the presence of mutual and hedge funds in the two countries.

A. Hedge, Mutual, and Pension Funds

Four features set apart these groups of institutional investors with systematic consequences for comparative corporate governance: mode of collecting funds and issuing payments, time horizon and liquidity constraints, managerial incentives, and process of picking portfolio companies. First, a key difference between these types of institutional investors lies in their mode of collecting funds and issuing payments “held in trust” for the beneficiaries. Defined benefits (DB) schemes guarantee the level of benefits the fund will pay and the method of determining those benefits, but not the amount of the contributions. DB schemes guarantee a fixed payment in the future. Defined contribution (DC) schemes, on the other hand, specify the level of contributions but not the amount of the benefits to be paid. The amount available to the beneficiaries results from both the portfolio performance and the amount initially invested. The existence of an almost perfect correlation characterizes the relationship between the method of collecting funds and the type of institutional investors. Pension funds are relying, to a substantial extent, on a DB scheme to collect and distribute assets.³⁹ The assets of mutual funds, by contrast, are managed almost exclusively on a DC scheme.⁴⁰ This is not surprising since mutual funds are investment companies that pool funds from individuals and corporations with the provision that the money invested is redeemable on demand.⁴¹ The funds paid to investors are dependent on the market performance of the mutual fund. Moreover, it is also important to note that pension funds do manage directly only a small percentage of the assets collected by them. The pension fund industry is increasingly dominated by reliance on mutual fund managers for asset management since 401(k) plans allow firms to more easily outsource direct contribution pension plans to external DC fund managers.

Second, the time horizon of institutional investors diverges considerably in regard to their patterns of trading. The annual average turnover rate of American public pension funds in 1997 was 19.3 percent.⁴² The similar figure for mutual fund managers and external money managers was 42.5 percent.⁴³ The time horizons of the largest mutual funds, in particular, are considerably short.⁴⁴ The average amount of time a share is held for Fidelity and Templeton (mutual funds) were respectively 2.63 and 2.22 years in 1999.⁴⁵ By contrast, most public

pension funds have longer term horizons as witnessed by their turnover rates: Florida state (12.5 years) and California State Teachers (7.6 years).⁴⁶

Hedge funds also display reliance on short-term trading, albeit in a different way from mutual funds.⁴⁷ The investment strategies of hedge funds entail high turnover and aggressive trading on short-lived information, but not because of liquidity concerns. Investors face an initial lock-up period of one year and subsequent restrictions to quarterly intervals. Instead, the short-time horizon of hedge funds results from their investment strategies. Hedge funds practice statistical arbitrage that involves balancing positions in assets (equity, government bonds, and national currencies) that are believed to be undervalued against others that are expected to fall in value. Hedge funds are putting bets that an asset will go above a designated target or will fall below it. They tend to quickly sell their positions in assets once these targets have been reached, thereby accounting for their propensity to rely on a short-term trading strategy.

Third, the incentives of fund managers are strikingly different. Increases in the level of the financial compensation of fund managers can come from maximizing the value of assets under management or from attracting new flows of funds. In other words, managerial remuneration is based on the volume of assets under management and on the performance of the portfolio. Public pension fund managers, however, face constraints that deter them from maximizing the value of their portfolio. The first constraint consists of state regulations that impose caps on the salary of managers.⁴⁸ In other words, the link between compensation and size of assets under management does not hold above a certain level—thereby resulting in overall lower salaries for public pension fund managers. Moreover, the number of beneficiaries in public fund schemes is limited by the size of the contributing workforce—a factor over which public pension fund managers have no control. The second constraint on public pension fund managers lies in the absence of any financial incentives tied to fund performance. The primary objective of DB public pension funds is to generate a certain minimum amount of revenues through the management of the assets under their control. Contributions are determined actuarially on the basis of the level of the benefits expected to become payable to the retirees. Fund managers earn a civil service salary and would not receive proportional extra rewards for achieving returns beyond the mandated averages.⁴⁹ Finally, public pension fund managers are elected state officials or political appointees facing different types of pressure from their mutual and hedge fund counterparts.⁵⁰

The incentives faced by mutual/hedge fund managers stand at the opposite end of the spectrum. The compensation for mutual fund managers is based on a percentage of assets under management without any caps.⁵¹ Moreover, the behavior of investors in mutual funds exhibits a marked tendency to flock to “winners.” Funds displaying high returns during an assessment period will experience an inward surge of new investment inflows in subsequent periods. In

particular, capital inflows are highly correlated with a fund outperforming a market benchmark. Managers desirous of increasing the value of the fund—and to augment their compensation—face highly powerful incentives to increase the size of assets under management by increasing the flows of new investment. This strategy invariably entails the revision of the composition of the portfolio.⁵² As well as being relative to the performance of other funds, the compensation of mutual fund managers is driven by internal performance and rankings. Numerous mutual funds are using a ranking system to evaluate their managers. At Fidelity, for example, each manager's returns are compared to benchmarks reflecting the risk specificity of the particular fund they manage.⁵³ Finally, hedge fund managers possess serious financial incentives to “beat” average market returns. As their mutual funds counterparts, managers of hedge funds are also compensated on the basis of the volume of assets under management and are given mandates to beat recognized financial benchmarks. However, the financial incentives of hedge fund managers differ in one fundamental way from those prevalent at mutual funds. Their compensation comprises both substantial incentive fees as well as the amount of assets under management, the former being paid only in the event of a positive return. The typical remuneration of hedge fund managers is characterized by 1 to 2 percent of assets under management and 5 to 25 percent of profits realized.⁵⁴

Fourth, the criteria and processes by which funds select companies for investment also differ, thereby resulting in a different composition of the stock portfolio. The composition of the stock portfolio for the great majority of pension funds is increasingly based on an index strategy. The growing recourse to indexing reflects their assessment that active management of the equity portfolio produces results inferior to market indexing. Pension funds often lack the firm-specific knowledge needed to take actions aimed at transforming the strategy of portfolio companies. Mutual funds, by contrast, do not acquire an equity stake in a corporation because it is part of an index. Managers are in stiff competition with other funds for the assets of investors that, in turn, can be redeemed at any moment. The structural characteristics of the mutual fund industry compel managers to achieve high returns, not simply matching an index. Mutual funds behave like stock pickers and are in many ways the mirror image of DB pension funds.⁵⁵ Finally, the compensation of hedge funds managers derives from the amount of assets under management and, to a substantial extent, from incentive fees. These incentive fees are paid only in the event of the returns on the portfolio exceeding financial benchmarks. The *raison d'être* of hedge funds is to pursue flexible and aggressive strategies that entail above-normal risks and potentially high returns.

The importance of specific firms for the overall financial performance of the fund also illustrates the differences in the composition of the portfolio of mutual and pension funds. The use of an index as an investment strategy by pension

funds entails that their aim is to reproduce as closely as possible the economic profile of a sector/country. The investment strategy of mutual funds, in contrast, aims at picking undervalued firms that are likely to outperform the market in the short term. These different investment strategies, in turn, entail diverging degrees of dependence on the performance of specific portfolio companies. The top portfolio companies for mutual funds account for a greater percentage of their overall investment than the top portfolio companies for pension funds.⁵⁶ The financial returns of mutual funds are more dependent on the performance of a selected number of portfolio companies than they are for pension funds.⁵⁷

B. Presence of Mutual and Hedge Funds in France and Germany

I computed data on the presence of mutual and hedge funds in France and Germany with the use of two indicators. The first indicator is related to the disclosure requirements of listed companies. EU regulation requires shareholders owning 5 percent or more of the outstanding equity capital of a corporation to notify the national securities regulations authorities. I recorded data on equity stake above the 5 percent threshold from September 1997 to May 2005 for both France and Germany.⁵⁸ I recorded every instance of acquisitions of equity capital over the 5 percent threshold by hedge and mutual funds under the following conditions. First, I discarded acquisitions above the 5 percent threshold by subsidiaries of non-financial firms from the database. Second, my sample is composed of domestically based firms in France and Germany. Third, I also discarded movements of capital above and below the 5 percent threshold within a thirty-day period. Some funds have adopted a policy of automatic sale of stocks if their equity stake goes above the mandatory disclosure requirement. Moreover, movements above and below the 5 percent threshold might reflect a share buyback program by a portfolio corporation rather than an intended strategy by an institutional investor. Fourth, I selected equity capital in a firm rather than voting rights as the indicator of movement of capital above the 5 percent threshold. Finally, I cross-checked the data collected by relying on two national business directories: DAFSA *Annuaire des Sociétés* for France and Rudiger Liedtke's *Wem Gehört die Republik* for Germany.⁵⁹ These two annual publications provide a full list of shareholders of listed companies and serve as useful reliability check mechanisms.

Data on the presence of short-term institutional investors in France and Germany reveal striking patterns of divergence. The attractiveness of France over Germany is evident as mutual and hedge funds have invested massively in the former, as measured by the overall number of stakes over the 5 percent threshold.⁶⁰ For the top twenty French firms by market capitalization, ten of them recorded twenty-five instances of investment over the 5 percent threshold by short-term Anglo-Saxon institutional investors. Because a firm can receive

more than one investment from a single institutional investor, the number of investments is always higher than the number of companies receiving investment. For the top twenty German firms by market capitalization, only five of them recorded twelve instances of investment over the 5 percent threshold by Anglo-Saxon institutional investors. For the top forty firms in the two markets, twenty-six French firms recorded sixty-six instances of investment over the 5 percent threshold; the corresponding figures for Germany were twelve firms and twenty-four acquisitions. For the top eighty companies, fifty-two French firms recorded 139 instances of investment over the 5 percent threshold; the corresponding figures for Germany were twenty-eight and forty-eight. For blue-chip companies, therefore, twice as many French firms recorded an investment from short-term Anglo-Saxon institutional investors than their German counterparts: and their total overall number of acquisitions was a little less than three times those recorded for German companies.⁶¹

The second source of data concerning the presence of short-term institutional investors is taken from the analysis performed by Morningstar, Inc., the Chicago-based rating agency. Morningstar, Inc., is the leading provider of independent research on American mutual funds and is highly influential with investors. Data on the importance of mutual funds is collected from *Morningstar Funds 500*, an annual publication that evaluates the performance of the biggest 500 funds in the United States. Most of the funds covered in this publication have assets invested in domestic stocks and bonds.⁶² About seventy-five funds per year are involved in international equity. For each of these internationally oriented funds, *Morningstar Funds 500* lists the five top countries of exposure.

I compiled data on the importance of the French and German markets by computing the number of times they appear among the top three foreign investment destinations of individual mutual funds. I also collected for comparability purposes data for the United Kingdom, a liberal market economy with a system of corporate governance most similar to that of the United States. The results are presented in table 2. The attractiveness of the French market over that of Germany for mutual funds is further confirmed. Investment in France is almost twice as important as investment in Germany in regard to the country of exposure of internationally oriented American mutual funds.

The conclusion that German workplace institutions deter short-term investors receives further confirmation from a comparison of the price/earnings (p/e) ratio of companies. German firms possess an overall lower p/e ratio than their French counterparts (see table 3). The p/e ratio is an indicator of how cheap or expensive the shares of a company are. It is calculated by dividing the price per share by its earnings per share. The p/e ratio is a valuation of the firm's share price compared to its per-share earnings. It shows how much shareholders are willing to pay per dollar of earnings. The higher p/e ratio of French firms

Table 2
Number of Times Countries Appear among the Top Three Foreign Investment Destinations of Individual Mutual Funds

Year	Germany	France	United Kingdom
1997	9	24	39
1998	22	39	56
1999	7	26	48
2000	10	29	52
2001	11	22	50
2002	6	31	46
2003	8	20	53
2004	8	25	53
2005	3	20	51

Source: Adapted from Michel Goyer, "Institutional Investors in French and German Corporate Governance," working paper (Cambridge, Mass.: Center for European Studies at Harvard University, 2006), table 7.

Table 3
Price-Earnings Ratio, French and German Stocks

Year	DAX 30 (Germany)	CAC 40 (France)	DAX 100 (Germany)	SBF 120 (France)
1998	21.7	21.7	Na	21.4
1999	19.4	22.4	14.1	21.3
2000	24.9	28.2	16.9	27.1
2001	17.7	16.6	20.8	16.5
2002	18.8	19.3	12.4	19.0
2003	10.6	13.5	11.2	13.3
2004	12.1	15.6	19.1	16.0
2005	11.0	13.9	15.2	14.5

Source: Adapted from Michel Goyer, "Institutional Investors in French and German Corporate Governance," working paper (Cambridge, Mass.: Center for European Studies at Harvard University, 2006), table 8.

indicates that value investors must pay relatively more for a given amount of earnings as compared to in the German market. In other words, the attractiveness of French firms for short-term, impatient capital cannot be attributed to low share price compared to per-share earnings. But the higher p/e ratios of French firms also reflect the expectations of higher streams of earnings in the future. Growth investors have expressed higher confidence in the future earnings stream of French companies.⁶³ Further confirmation of the divergent attractiveness of the two countries is also provided by anecdotal evidence from practitioners. The concerns of institutional investors of the French market has tended to revolve around the questions of unequal voting rights and the lack of financial transparency—two issues that are dear to pension funds who rely on publicly

available mechanisms to monitor portfolio firms.⁶⁴ German firms have largely met the preferences of foreign institutional investors on these two issues. By contrast, hedge and mutual funds have expressed concerns about corporate and workplace governance in Germany.⁶⁵ Their fear is that employees can act as insiders with management—a situation less likely to occur in France, as the discussion in the next section will illustrate. That fear, moreover, has to be contrasted against evidence that one category of shareholders, namely, long-term pension funds, has been able to act as a coalition partner with German employees against instances managerial opportunism.⁶⁶

III. FIRM-LEVEL INSTITUTIONS IN FRANCE AND GERMANY

The lack of convergence in the composition of foreign ownership of French and German firms, as documented in the previous section, reflects in great part the ability of companies to attract capital from the world's biggest investors, namely, mutual and hedge funds. The argument presented in this section is that the firm-level institutions of companies provide different degrees of fit with the preferences and strategies of these investors. I argue that the degree of fit between the investment strategies of mutual/hedge funds and the firm-level institutions of advanced industrialized nations reflects the ability of the CEO and top managers to reorganize the workplace in a unilateral fashion. The divergence in the institutional arrangements of firm-level organization between France and Germany impacts on the ability of management to implement reorganization schemes in a unilateral manner, thereby providing specific incentives for the managers of mutual and hedge funds. The short-time horizon of these investors does fit well with the decision-making and adjustment processes of large French firms—which are management-led and provide the workforce with fewer opportunities to block managerial initiatives.⁶⁷ The primary goal of mutual and hedge funds is to convince the CEO of the value of specific strategic changes. This is because the implementation of restructuring policies requires, almost solely, the CEO's approval given that employees have no means of intervention for employees. The diffusion of power inside German firms, by contrast, means that the consent of works councils as well as that of top management are necessary for the introduction of new strategies.⁶⁸ The legal rights of works councils and the regulations regarding training provide employees with means to derail unwanted measures.⁶⁹

The rest of this section is organized in the following manner. First, I identify the institutional arrangements of firm-level organization that stand prominently in illustrating the concentration of power at the top of French companies and the constraints on managerial autonomy in Germany. I discuss two key areas of firm-level organization—skill certification and formation, and segmentation of activities and the autonomy of employees in problem-solving tasks. Second,

I analyze how these institutional arrangements shape the adjustment process of companies which, in turn, provides for different degrees of fit with the preferences and strategies of funds.

A. Training and the Building of Firm Competencies

The first key firm-level institutions are those related to the process of skill formation and certification of the workforce, i.e., training. The matching of jobs and worker competencies in the two countries shapes, in different ways, the ability of management to implement restructuring measures in a unilateral manner. The German economy is organized around the presence of a majority of employees with certifiable skills as a strategy for firms to develop their capabilities. By contrast, French companies build their competencies around mid-level management and technical specialists rather than investing in the improvement of the skills of the bulk of the workforce.

The divergent method of coupling tasks and competencies is first reflected in the role of vocational training in the two countries. Vocational training is prominent in Germany and relatively neglected in France. The German system of occupational training is both prominent and autonomous. A substantially higher proportion of workers in Germany have received some vocational training. In 1995, the average number of trainees for large German firms (over 500 employees) was six per 100 workers with a retention rate of 85 percent.⁷⁰ The corresponding figure for large French companies was 2.2 per 100 workers in 1996 with a retention rate of 35 percent.⁷¹ Secondly, the different patterns by which competencies and jobs are matched in the two countries are also visible throughout the entire career of employees—and are not simply limited to vocational training. The qualification of German employees determines the definition of jobs. The access to a majority of jobs in large firms is based upon the holding of a recognized diploma or qualification. Training is invariably a prerequisite for employment and promotion.⁷² The influence of firm-level works councils is paramount, as they have consistently insisted that different types of occupations should be associated with different levels of skills. Managers cannot move employees within the firm without prior appropriate training. The promotion process in German firms reflects the acquisition of the required technical expertise and completion of the relevant training. This process ensures that the authority of projects managers rests on technical competence and is not based on their access to higher levels of managerial authority. By contrast, French employers use their own criteria to define jobs to which employees adapt either in training programs (blue collar) or through the obtainment of university diplomas (white collar), the promotion system of French firms being a reflection of a change of status unilaterally decided by top management rather than being the acquisition of technical expertise. The relationship between training

and promotion is reversed in France. Management selects workers to be promoted, and then provides them with the appropriate training.⁷³ Firms provide in-house training for employees who usually have a substantial experience.

The German training system, moreover, is well established and autonomous from managerial interference—in addition to being prominent. The presence of a majority of workers with certifiable skills in the German economy is legally based and protected from outside intervention.⁷⁴ First, a high number of jobs require certifiable skills that are acquired in vocational training programs. Second, industrial or regional chambers must certify the training programs of firms, and any change in the content of training certification—the modification of an existing certification or the introduction of a new one—requires the approval of a body of experts in which national industrial unions occupy half of the seats. In turn, works councils have been instrumental in setting training standards as well as overseeing the implementation of training programs in the firm. The veto power of employees on the board of the industrial and regional training commissions prevents significant modifications of the system and ensures a stable demand for certified employees. Third, firm-level works councils possess a full veto power over hiring, thereby constraining managerial ability to rely on outside experts.⁷⁵ New jobs must be offered first to the current members of the workforce. In other words, the position of organized labor and the works councils in the training system has enabled them to impose significant constraints on hiring new employees when a company scaled back its activities to a few core competencies: since new training programs have to be approved by an expert body in which organized labor holds half of the seats, they have *de facto* veto power over these programs. The institutions of training constrain management on several fronts: skills are a prerequisite for jobs, management must provide the relevant training to employees, the content of these programs must be certified by an outside body where labor possesses a veto, and the hiring of new employees with the requisite skills is subject to the approval of works councils.

By contrast, the development of the core competencies of French firms is not based on the skills of the bulk of the workforce. The educational system remains the primary mechanism by which employees are assigned to skilled positions.⁷⁶ The French case is characterized by the absence of legal requirement to assign specific jobs to workers with certifiable skills. First, attempts by state officials to impose the recognition of training (vocational or on the job) as a prerequisite for holding jobs have been defeated by French employers.⁷⁷ As discussed above, managers use their own criteria to define jobs to which employees adapt either through participation in training programs (blue collar) or through the obtaining of university diplomas (white collar). The content of training and the place of employees in the production process represent areas of pure managerial prerogative.⁷⁸ Second, boards of experts (business associations and employee committees) on training play a simple consultative role.⁷⁹ In the case of vocational

training, moreover, it is the Ministry of Education that is responsible for the elaboration of the standards. Third, firm-level works councils possess limited information rights on the hiring of new staff—not a full veto power that could prevent employers from replacing current workers with new employees.⁸⁰ Relying on outside experts has, in fact, proven to be a privileged strategy of adjustment for French companies.⁸¹

B. Work Organization and the Segmentation of Activities

The second major difference between the organization of the workplace in France and Germany concerns the extent to which activities are segmented, i.e., the degree of managerial control over the organization of the production process, especially in regard to how employers rely on the bulk of the workforce in organizing and carrying out tasks.⁸² The French case is characterized by the segmentation of production activities and responsibilities between blue-collar employees and managers, a rather rigid system of rules, and an emphasis on narrow and specialized skills.⁸³ Firms rely on the presence of rules that regulate the nature of the tasks to be accomplished—rather than the functions to be performed—to organize the production process.⁸⁴ The implementation of the firm strategy is accomplished through numerous sets of rules designed to specify the terms of exchange among parties. The organization of work is divided into fragmentary tasks. Highly qualified engineers elaborate the conception of products, and employees carry out the tasks following instructions.⁸⁵ The separation between planning and execution limits the ability of blue-collar employees to participate in the conduct of the business strategy of the firm since they possess a limited view of its operations. This limitation, in turn, contributes to the concentration of power at the top of the managerial hierarchy.

The initial rationale for this specific organization of the workplace in France is best explained by Crozier's notion of the avoidance of face-to-face relationships and Hofstede's classification of France as a country in which individualism ranks high as a value.⁸⁶ The French propensity for uncertainty avoidance, combined with the antagonistic nature of industrial relations, led firms to adopt mechanisms designed both to prevent the involvement of employees in the conduct of the strategy of the firm as well as to protect them from unpredictable and unwarranted intrusion. However, the advent of firm-level flexibility and the increasing importance of microprocessor technology did raise the costs associated with the maintenance of this separation between elaboration and implementation of tasks. The need for companies to adapt quickly to a changing environment requires a change of attitude of workers. Employees must enter into a dialogue with management and different functional departments in order to achieve flexibility, quality, and speed. Consequently, greater participation by employees in the modification of their environment has taken place

inside large French companies in the last fifteen years.⁸⁷ Employees are given a greater choice of tasks by management. They have become more involved in problem solving and contribute in monitoring and evaluating performance, as more is expected of them from management.⁸⁸ Nonetheless, the separation between planning and execution is still predominant and the organization of work has not lost its key Fordist component.⁸⁹ Shop floor restructuring in the last fifteen years might have provided for greater employee involvement, but does not allow for their influence over what tasks they perform and the conditions under which work takes place. Hierarchical relationships are still predominant inside French firms.⁹⁰

The organization of work in Germany, on the other hand, is more straightforward and characterized by the application of rules to broad functions, rather than by trying to predict contingencies on the shop floor through heavy reliance on explicit instructions. The predominance of employees with certifiable skills and the subsequent reliance of management on the bulk of the workforce as a strategy to develop the capabilities of the firm constitute critical factors that have bridged the gap between conception and implementation in Germany.⁹¹ The role of training is particularly important in this process as employees are grouped according to the types of qualifications they possess, and tasks are organized according to their skill requirements.⁹² The outcome is one where the institutional arrangements of the workplace are characterized by blurred organizational boundaries and reduced segmentation, the delegation of control over the nature of work processes resulting in the involvement of employees in many tasks.⁹³

The differences exhibited by French and German companies in regard to the separation of task execution and implementation, in turn, impact on the extent to which workers exercise discretion over how tasks are performed and their ability to contribute to problem solving. The institutional arrangements of workplace organization in Germany provide for substantial autonomy in the definition of tasks and autonomy in their implementation.⁹⁴ High levels of authority sharing, the development of firm competencies via the institutions of training, and the involvement of workers beyond the managerial hierarchy in the elaboration of the strategy of the firm link the fate of employees to that of management.⁹⁵ Skilled employees possess strong incentives to develop problem-solving capabilities, given the firm-specific stakes of their career development. Moreover, the capabilities of German employees are shaped in a profound manner by the content of their skills. The involvement of employer associations in the certification process ensures that skills would be relevant to their strategic needs. The involvement of national union representatives in the certification process, on the other hand, ensures that skills will be of general character and fit with broad job descriptions.⁹⁶ The content of the skill certification of employees is not tightly connected to specific jobs. Finally, the use of job rotations

enhances the degree of polyvalence of German employees, thereby increasing their capabilities to engage in problem-solving tasks.⁹⁷ Job rotation allows companies to rely on employees with broad skills to tackle shifts in work demands.⁹⁸ The degree of polyvalence of workers is high since the organization of the workplace favors the acquisition of broad-based skills.⁹⁹

The institutional arrangements of workplace organization in France, by contrast, do not contribute to the development of the firm-specific problem-solving capabilities of employees. First, job rotations in French enterprises are less frequent than in Germany.¹⁰⁰ The working life of employees tends to be associated with specific tasks, therefore leading to segmentation of work roles and functional specialization. Second, job demarcations are stricter. The segmentation of the activities of the firm between elaboration and execution and the narrow skills of French employees entail that they possess a limited view of the totality of the operations of the firm and rely on top management for coordination. Their ability to develop firm-specific problem-solving capabilities are seriously limited since they have a limited view of the operations of the firm.¹⁰¹ The process of problem solving is management-led with the involvement of a few highly qualified technical specialists.

C. Firm-Level Institutional Arrangements and Paths of Adjustment

The firm-level institutional arrangements of German firms place serious constraints on the ability of managers to conduct the business strategy of the firm in a unilateral manner. Nonetheless, companies have exhibited flexibility in adjusting internally to shifts in demand on markets—although not in a manner that fits well with the preferences of mutual and hedge funds. Firms have traditionally responded to the volatility of markets by redeploying the capabilities of employees to new uses—instead of relying on firings and other types of market-based adjustments. This adjustment process is possible because the skills of employees are broad enough to accomplish a wide range of tasks in a context where labor laws make it difficult to proceed to dismissals. Broad skills and blurred organizational boundaries provide employees with the skills for problem-solving activities.¹⁰² Training curricula and regulations are broadly defined to avoid overspecialization in narrow skill assignments, and the blurring of boundaries and responsibilities allows employees to switch between different functions. The skills of employees shape their ability to solve problems that, in turn, present management with opportunities to reorganize the production process. The possession of broad skills by employees provides German companies with the capacity for retooling in response to new market demands.¹⁰³ This strategy, however, does not fit well with the preferences and tactics of mutual/hedge funds. The redeployment of the skills of employees to new economic circumstances is unlikely to be accomplished as rapidly as external mechanisms of

adjustment that rely on dismissals and other types of market-based adjustment. This is particularly true in times of rapid technological change that require a radical transformation in skill content. The German system is plagued by serious rigidities. The introduction of a new product invariably gives rise to jurisdictional disputes between various employees.¹⁰⁴ The respective role to be performed by each of the skill categories in the introduction of new products must be bargained out.¹⁰⁵

The centralized and functionally differentiated work organization of large French firms, on the other hand, militates against experimentation with skill redeployment. It instead entails a separation between categories of workers: a small number of highly qualified employees sealed off from the implementation process, and the bulk of the workforce composed of low-skilled workers with narrowly specialized tasks that cannot be redeployed with unpredictable shifts in demand. The importance of the failure of state officials to impose the recognition of training as a prerequisite for holding specific jobs becomes apparent in this context. Differences in training between France and Germany are not simply a quantitative issue—i.e., more workers possessing certified skills in the latter. Despite state regulation that imposes a legal obligation on French firms to spend a percentage of their wage bill on training, flows of funds have been concentrated on managerial staff with already high levels of skill.¹⁰⁶ The sharp segmentation of production activities and responsibilities between blue-collar employees and managers, a rigid system of rules, and the emphasis on narrow and specialized skills limit the ability of workers to participate in the conduct of the business strategy, thereby lessening the dependence of management on the skills of the bulk of the workforce.

CONCLUSIONS AND IMPLICATIONS

The argument presented in this article has several implications for the study of comparative corporate governance and national models of capitalism under conditions of financial globalization and increasing capital mobility across borders. The article took a two-pronged approach to these issues by asking the following: what accounts for the diverging ability of French and German firms to attract capital from Anglo-Saxon investors, and what are the consequences associated with the growth of foreign ownership? The issue of accounting for institutional change and its effects has become critical for comparative political economists, given that the field has long focused on using institutions to account for divergence across countries. The argument of this article has highlighted the continuing usefulness of taking seriously institutional frameworks as an independent variable for middle-range theoretical projects. Key institutions (workplace organization) constitute the single most important variable to account for change in the specific case of the foreign ownership structure of French and German firms.

First, institutional arrangements interact to complement each other and consequently cannot be studied in isolation, whether analyzing the presence of stability or the occurrence of change in the broader institutional framework of countries.¹⁰⁷ The introduction of a profound institutional change in the ownership structure of French and German companies does not annul the theoretical importance of institutions. Substantial institutional differences remain in other areas, and these persisting cross-national differences form a distinctive constellation that produces different outcomes across nations. The impact associated with institutional change on the overall operation of the political economy is dependent on the interaction of the new institutions with those already in place, as institutional change is almost invariably piecemeal rather than full-scale. This is a significant and worthy aspect of analysis, since the occurrence of institutional change is not sufficient in order to assess whether change is evolutionary or radical.¹⁰⁸ Different processes of change (abrupt and incremental) can both result in an evolutionary or radical transformation of the system.

Second, the institutions of workplace organization in the two countries have become more salient in the new context of financial globalization after having been characterized by an element of latency prior to financial deregulation.¹⁰⁹ The long-term cross-national differences in work organization contributed to the differences in the patterns of economic specialization of the two countries, but they had nothing to do with the ownership structure of large domestic companies given the lack of international diversification of Anglo-Saxon investors prior to the early to mid-1990s. This last point about latency illustrates quite well the importance of the interactive effects associated with an institutional matrix. Prior to the mid-1990s, France and Germany were two bank-based financial systems with long-term patient capital despite differences in the institutions of workplace organization. The provision of patient capital in France was previously made possible through a combination of state regulation of the banking sector that facilitated access to long-term capital through bank loans, and cross-shareholdings among large companies.¹¹⁰ The deregulation of the banking sector and the decline of cross-shareholdings in France entail that the provision of long-term capital in the form of debt finance is no longer available; it has instead been replaced by the presence of short-term, impatient capital. A key insight is that while the institutions of workplace organization have not fundamentally changed, the external environment in which they are embedded has. The concentration of power in top management was previously interacting with state policies and patterns of cross-shareholdings that enabled firms to have access to long-term capital. This outcome contrasts with the German situation. The provision of long-term capital in Germany resulted from concentrated ownership and the ability of shareholders to monitor companies via non-market mechanisms. The provision of long-term capital has not been affected by recent developments. The ownership concentration of large companies has remained

intact despite the increasing importance of Anglo-American pension funds that are, moreover, themselves long-term owners.¹¹¹

Third, the theoretical importance of the degree of power concentration associated with the institutions of workplace organization as an explanation of the ability of companies to attract foreign capital is contingent upon its resilience and its ability to sustain cross-national comparisons. The research design of this article and the ability to draw causal inferences would be uncertain if both the power concentration inside companies and the ownership structure of large firms had changed in recent years, given the problem of over-determination. The degree of power concentration of large French and German companies, and the process by which they develop their innovative capabilities, have been relatively stable and exhibited striking differences between the two countries for the last thirty years despite changes in ownership structure. A key insight of this article is that one must distinguish between the character of coordination of firms from the institutional framework that supports it.¹¹² Change in the former does not entail a modification in the latter. The sustainability of national models of corporate governance and capitalism cannot rest on the total absence of institutional change. The presence of institutional change does not imply inertia.¹¹³ Instead, the central issue is whether the transformation of the ownership structure of large firms sustains their mode of coordination and the complementarities of the model.

The distribution of power of French and German companies has remained stable over a period of time in which their ownership structure underwent a significant transformation. The mode of coordination of the activities of large companies in the two countries is best understood by analyzing the process by which they develop and sustain their innovative competences. The development of innovative capabilities by firms requires the involvement of employees in complex problem-solving activities as well as the ability to develop a viable strategy that will enable them to compete in different sectors and technology. However, the nature of the integration of employees in the development of organizational capabilities varies quite sharply between France and Germany. The coordination of activities in large French companies is characterized by the vesting of unilateral authority in top managers and senior staff. The acquisition of new competences often takes place through the hiring of specialists on external labor markets. The bulk of the workforce does not contribute to the development of the organizational learning capabilities of the firm. The hierarchical patterns of differentiation and the concentration of power inside French companies not only reflect organizational politics, but also constitute the key mode of coordination by which they develop their competitive competences. The coordination of activities of large German firms, in contrast, involves high levels of authority sharing with the bulk of the workforce. The development of innovative capabilities takes place on the basis of the long-term contribution of skilled employees

through institutionalized career paths. Continuing job rotations across functions as well as lateral coordination enable the bulk of employees to contribute to the improvement of the organizational problem-solving capabilities of firms. The rise of foreign ownership in France and Germany does not constitute a challenge to the mode of coordination of large domestic firms; it does contribute to reinforce the process of development of their innovative capabilities. I argue in this article that the relative attractiveness of French and German firms for Anglo-American institutional investors is shaped by the different institutional arrangements of workplace organization and the power relationships embodied in them. The concentration of power in the CEO of French companies is valued by mutual and hedge funds, since it makes it easier to reorganize the strategy of the firm quickly—a key aspect of the preferences of this type of investors given their short-time horizons. By contrast, the relative absence of mutual and hedge funds, coupled with the growing strength of pension funds with their demands for financial transparency and long-term horizon, constitutes a stabilizing factor for the institutional arrangements of workplace organization of German companies. The globalization of financial markets and the greater mobility of capital across borders have not undermined the institutions of work organization in France and Germany, a key feature of these two distinctive models of capitalism.

NOTES

1. A good overview of the causes and dynamics of recent corporate scandals in Europe and the United States is provided in John Coffee, "A Theory of Corporate Scandals: Why the USA and Europe Differ," *Oxford Review of Economic Policy* 21, no. 2 (Summer 2005): 198-211.

2. Excellent analyses of the political dimensions of the transformation of national systems of corporate governance are Peter Gourevitch and James Shinn, *Political Power and Corporate Control: The New Global Politics of Corporate Governance* (Princeton, N.J.: Princeton University Press, 2005); and Mark Roe, "Political Preconditions to Separating Ownership from Corporate Control," *Stanford Law Review* 53, no. 3 (December 2000): 539-606.

3. For comprehensive overviews of the rise of shareholder value practices in France and Germany, see Richard Deeg, "The Comeback of Modell Deutschland?" *German Politics* 14, no. 3 (September 2005): 332-53; Michel Goyer, "Corporate Governance, Employees, and Core Competencies in France and Germany," in *Global Markets, Domestic Institutions: Corporate Law and Governance in a New Era of Cross-Border Deals*, ed. Curtis Milhaupt (New York: Columbia University Press, 2003); and Martin Hoepner, "Corporate Governance in Transition: Ten Empirical Findings on Shareholder Value and Industrial Relations in Germany," Discussion Paper no. 01/5 (Cologne: Max Planck Institute, 2001). For a theoretical overview of the issue of convergence in corporate governance, see Ruth Aguilera and Gregory Jackson, "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants," *Academy of Management Review* 28, no. 3 (July 2003): 432-46.

4. John Campbell, *Institutional Change and Globalization* (Princeton, N.J.: Princeton University Press, 2004).

5. The case for divergence is best asserted in Suzanne Berger, "Introduction," in *National Diversity and Global Capitalism*, ed. Suzanne Berger and Ronald Dore (Ithaca, N.Y.: Cornell University Press, 1996); and Peter Hall and David Soskice, "An Introduction to Varieties of Capitalism," in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, ed. Peter Hall and David Soskice (New York: Oxford University Press, 2001).

6. See Campbell, *Institutional Change and Globalization*, 1-9; and Douglass North, *Understanding the Process of Economic Change* (Princeton, N.J.: Princeton University Press, 2005).

7. Excellent analyses of patterns of adjustment in French firms are Bob Hancké, *Large Firms and Industrial Adjustment: Industrial Renewal and Economic Restructuring in France* (New York: Oxford University Press, 2002); and Vivien Schmidt, *From State to the Market? The Transformation of French Business under Mitterrand* (New York: Cambridge University Press, 1996).

8. The key readings on the negotiated process of firm-level adjustment in Germany are Wolfgang Streeck, *Social Institutions and Economic Performance* (London: Sage, 1992); and Kathleen Thelen, *Unions of Parts: Labor Politics in Postwar Germany* (Ithaca, N.Y.: Cornell University Press, 1991).

9. The classic statement on the Varieties of Capitalism theoretical perspective is Hall and Soskice, "An Introduction to Varieties of Capitalism," 1-71.

10. Hall and Soskice argue that two dominant clusters of interdependent institutions exist: liberal market economies and coordinated market economies. These two clusters constitute different ways to solve coordination problems faced by firms—market instruments being predominant in the former, while a greater range of institutions such as peak associations, network monitoring based on the exchange of private information, and relational contracting constitute the hallmarks of adjustment processes for the latter.

11. See Peter Hall and Daniel Gingerich, "Varieties of Capitalism and Institutional Complementarities in the Macroeconomy: An Empirical Analysis," Discussion Paper no. 04/5 (Cologne: Max Planck Institute, 2004); and David Soskice, "Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 1990s," in *Continuity and Change in Contemporary Capitalism*, ed. Herbert Kitschelt, Peter Lange, Gary Marks, and John Stephens (New York: Cambridge University Press, 1999).

12. An excellent analysis of the problem of economic coordination in regard to the question of training is Pepper Culpepper, *Creating Cooperation: How States Develop Human Capital in Europe* (Ithaca, N.Y.: Cornell University Press, 2003).

13. Hall and Soskice, "An Introduction to Varieties of Capitalism," 36-44.

14. The broadest theoretical critiques of the Varieties of Capitalism perspective are Colin Crouch, *Capitalist Diversity and Change* (New York: Oxford University Press, 2005); Chris Howell, "Varieties of Capitalism: And Then There Was One?" *Comparative Politics* 36, no. 1 (October 2003): 103-24; and Glenn Morgan, "Institutional Complementarities, Path Dependency, and the Dynamics of Firm," in *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization*, ed. Glenn Morgan, Richard Whitley, and Eli Moen (New York: Oxford University Press, 2005).

15. The thesis of significant transformation via incremental processes of change is best provided in Wolfgang Streeck and Kathleen Thelen, "Introduction: Institutional Change in Advanced Political Economies," in *Beyond Continuity: Institutional Change in Advanced Political Economies*, ed. Wolfgang Streeck and Kathleen Thelen (New York: Oxford University Press, 2005).

16. This theoretical perspective of institutional change constitutes an explicit criticism of punctuated equilibrium models whereby prolonged periods of institutional stability are interrupted suddenly by critical exogenous shocks that result in a conflictual period of transition until a new pattern of institutional complementarity is established, thereby resulting in a new stable equilibrium.

17. See Ronald Gilson, "Globalizing Corporate Governance: Convergence of Form or Function," *American Journal of Comparative Law* 49, no. 2 (Spring 2003): 329-57; and Kathleen Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," in *Comparative Historical Analysis in the Social Sciences*, ed. James Mahoney and Dietrich Rueschemeyer (New York: Cambridge University Press, 2003).

18. See Marino Regini, "Between Deregulation and Social Pacts: The Responses of European Economies to Globalization," *Politics and Society* 28, no. 1 (March 2000): 5-33.

19. This argument is best developed in Peter Hall, "Central Bank Independence and Coordinated Wage Bargaining: Their Interaction in Germany," *German Politics and Society*, no. 31 (Spring 1994): 1-23; and Peter Hall and Robert Franzese, "Mixed Signals: Central Bank Independence, Coordinated Wage Bargaining, and European Monetary Union," *International Organization* 52, no. 3 (Summer 1998): 505-35.

20. See Michael Loriaux, *France after Hegemony: International Change and Financial Reform* (Ithaca, N.Y.: Cornell University Press, 1991); and John Zysman, *Governments, Markets, and Growth* (Ithaca, N.Y.: Cornell University Press, 1983), 99-169, for historical analyses of the French financial system.

21. The original thesis is Peter Hall and Kathleen Thelen, "Institutional Change and the Varieties of Capitalism" (paper presented to the APSA annual meeting, Washington, D.C., September 1-4, 2005).

22. A good example of this dichotomy between coordination and institutional change is the transfer of Japanese methods of production (just-in-time, teamwork) to France and Germany in the last twenty years. In France, the introduction of such methods served as an additional means of control for management at the same time as constituting a source of productivity. In Germany, the same event strengthened the position of the Meister and the central role of training in the production process. See Peter Doeringer, Edward Lorenz, and David Terkla, "The Adoption and Diffusion of High-Performance Management: Lessons from Japanese Multinationals in the West," *Cambridge Journal of Economics* 27, no. 2 (March 2003): 265-86; and Mari Sako, "Training, Productivity and Quality Control in Japanese Multinational Companies," in *The Japanese Firm*, ed. Masahiko Aoki and Ronald Dore (New York: Oxford University Press, 1996).

23. See Robert Boyer, "Wage Austerity and/or an Education Push: The French Dilemma," *Labour* 9, special issue (1995): 19-65; and Pepper Culpepper, "Individual Choice, Collective Action, and the Problem of Training Reform: Insights from France and Eastern Germany," in *The German Skills Machine: Comparative Perspectives on Systems of Education and Training*, ed. Pepper Culpepper and David Finegold (New York: Berghahn, 1998).

24. See Arndt Sorge, *The Global and the Local: Understanding the Dialectics of Business Systems* (New York: Oxford University Press, 2005), ch. 5; and Richard Whitley, "The Institutional Structuring of Organizational Capabilities: The Role of Authority Sharing and Organizational Careers," *Organization Studies* 24, no. 5 (June 2003): 667-95.

25. Zysman, *Governments, Markets, and Growth*, 69-75.

26. See Jeremy Edwards and Klaus Fisher, *Banks, Finance and Investment in Germany* (New York: Cambridge University Press, 1994); and Francois Morin, *La Structure Financière du Capitalisme Français* (Paris: Calmann-Levy, 1974).

27. Julian Franks and Colin Mayer, "Corporate Ownership and Control in the U.K., Germany, and France," *Journal of Applied Corporate Finance* 9, no. 4 (Winter 1997): 30-45.

28. See Loriaux, *France after Hegemony*; and Jonathan Story, "Finanzplatz Deutschland: National or European Response to Internationalization?" *German Politics* 5, no. 3 (December 1996): 371-94.

29. Conference Board, "Equity Ownership and Investment Strategies of US and International Institutional Investors," *Institutional Investment Report* 4, nos. 2-3 (May 2002): 1-45.

30. François Morin and Eric Rigamonti, "Evolution et Structure de l'Actionariat en France," *Revue Française de Gestion* 28, no. 141 (November-December 2002): 155-81.

31. Alfred Rappaport and Mark Sirower, "Stock or Cash? The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions," *Harvard Business Review* 77, no. 6 (November-December 1999): 147-58.

32. Hall and Soskice, "An Introduction to Varieties of Capitalism," 57. Data on the distribution of activities of French and German firms between the home base and American subsidiaries are presented in Manuel Separio and Donald Dalton, "Globalization of Industrial R&D: An Examination of Foreign Direct Investments in R&D in the United States," *Research Policy* 28, nos. 2-3 (March 1999): 303-16.

33. John Coffee, "The Future as History: The Prospects for Global Convergence in Corporate Governance," *Northwestern University Law Review* 93, no. 3 (1999): 641-708.

34. Gourevitch and Shinn, *Political Power and Corporate Control*, 105. It must be noted, however, that foreign ownership for large companies is substantially higher than for the rest of the German corporate sector. See Michel Goyer, "Institutional Investors in French and German Corporate Governance," working paper (Cambridge, Mass.: Center for European Studies at Harvard University, 2006), table 2.

35. See Goyer, "Institutional Investors in French and German Corporate Governance," table 4.

36. See, for example, Mark Roe, "Corporate Law's Limits," *Journal of Legal Studies* 31, no. 2 (June 2002): 233-71.

37. See Hancké, *Large Firms and Industrial Adjustment*, 57-87; and Schmidt, *From State to the Market?* 393-416.

38. See Kathleen Thelen, *Unions of Parts*, 25-104.

39. *Pensions & Investments*, January 26, 2004, 16.

40. Robert Pozen, *Mutual Fund Business* (Cambridge, Mass.: MIT Press, 1998), 397-423.

41. Hedge funds, on the other hand, are traditionally set up as limited partnerships that are limited to a restricted number of wealthy individuals (500) with personal assets of at least \$5 million who are willing to adopt highly risky short-term strategies and borrow on financial markets in exchange for high return potential. Hedge funds are managed on a DC scheme with investors uncertain to recover their investment since fund managers are typically given mandates to make an absolute return target regardless of the market environment. But in contrast to mutual funds schemes, hedge funds impose initial lock-up periods of at least one year as funds are not redeemable on demand. This difference aside, hedge and mutual funds constitute two forms of short-term, impatient capital. For an overview, see Stephen Brown and William Goetzmann, "Hedge Funds with Style," NBER working paper no. 8173 (Cambridge, Mass.: NBER, 2001).

42. Conference Board, "Turnover, Investment Strategies, and Ownership Patterns," *Institutional Investment Report* 2, no. 2 (August 1998): 1-51.

43. Ibid.

44. See Daniel Bandru, Stéphanie Lavigne, and François Morin, "Les Investisseurs Institutionnels Internationaux: Une Analyse du Comportement des Investisseurs Américains," *Revue Économie Financière*, no. 61 (2001): 121-37.

45. Ibid., 125.

46. Ibid., 126.

47. For an overview of the investment strategies of hedge funds, see Carl Ackermann, Richard McEnally, and David Ravenscraft, "The Performance of Hedge Funds: Risk, Return, and Incentives," *Journal of Finance* 54, no. 3 (June 1999): 833-74.

48. See Tracy Woidtke, "Agents Watching Agents? Evidence from Pension Fund Ownership and Value," *Journal of Financial Economics* 63, no. 1 (January 2002): 99-131.

49. Robert Monks and Nell Minow, *Corporate Governance* (Cambridge, Mass.: Blackwell, 1995), 125.

50. An excellent review of the motivations of pension fund officials is provided in Roberta Romano, "Public Pension Fund Activism in Corporate Governance Reconsidered," *Columbia Law Review* 93, no. 4 (May 1993): 795-853.

51. See Edwin Elton, Martin Gruber, and Christopher Blake, "Incentives Fees and Mutual Funds," *Journal of Finance* 58, no. 2 (April 2003): 779-804.

52. Mutual fund managers whose fund's performance lags behind rivals at the midpoint of an assessment period are likely to shift the composition of their portfolio by investing in a greater number of riskier companies, thereby increasing the volatility of the fund but also the probability of increasing its performance. See Judith Chevalier and Glenn Ellison, "Risk Taking by Mutual Funds as a Response to Incentives," *Journal of Political Economy* 105, no. 6 (December 1997): 1167-200.

53. Ian McDonald, "Fidelity Managers Gets Ranked," *Wall Street Journal Europe*, January 21, 2003.

54. Brown and Goetzmann, "Hedge Funds with Style," 2.

55. Monks and Minow, *Corporate Governance*, 163; and Robert Pozen, "Institutional Investors: The Reluctant Activists," *Harvard Business Review* 72, no. 1 (January-February 1994): 140-49.

56. See Goyer, "Institutional Investors in French and German Corporate Governance," table 5.

57. Hedge funds do not have to reveal the composition of their portfolio, and materials distributed to investors are often available on a restricted basis and published at irregular intervals. Their low-profile and secretive nature is designed to minimize regulatory and tax oversights. As a result, it is often impossible to acquire credible data on the holdings of hedge funds. On the other hand, however, financial regulation in the European Union obliges shareholders to disclose equity stake above the 5 percent threshold. Thus, it becomes possible to track the investment targets of hedge funds when their equity stake exceeds this threshold. Data on the presence of hedge funds in France and Germany are provided in the next section.

58. I collected data from the two official governmental databases of the financial regulation authority of the two countries: <http://www.amf-france.org> and <http://www.bawe.de>.

59. Dafsaliens, *Annuaire DAFSA* (Paris: Editions Dafsa, annually); and Rudiger Liedtke, *Wem Gehort die Republik?* (Frankfurt: Eichborn, annually).

60. A detailed and complete listing of acquisitions over the 5 percent threshold in France and Germany is provided in Goyer, "Institutional Investors in French and German Corporate Governance."

61. A similar divergence characterizes the investment of Anglo-Saxon institutional investors in the two countries outside the blue-chip company category. From September

1997 to May 2005, ninety-three German firms received a total of 130 instances of an investment over the 5 percent threshold by an Anglo-Saxon institutional investor. If we deduct the top eighty companies from this sample, this leaves us with sixty-five German firms recording eighty-two investments over the 5 percent threshold. For the same period, 211 French companies recorded 416 instances of an investment over the 5 percent threshold. The same figures, if we deduct the top eighty French companies from the sample, are 159 and 277.

62. Morningstar, *Morningstar Funds 500* (Hoboken, N.J.: John Wiley, annually).

63. For a complete discussion of the link between price/earning ratio and managerial autonomy, see Goyer, "Institutional Investors in French and German Corporate Governance."

64. Nicolas Daniels, "Les Points Noirs du Gouvernement d'Entreprise a la Française," *Figaro Economie*, May 10, 2001; and Davis Global Advisors, *Leading Corporate Governance Indicators* (Newton, Mass.: Davis Global Advisors, annual publication). See also Goyer, "Corporate Governance, Employees, and Core Competencies in France and Germany," 191-98.

65. See Detley Karg, "For Sale: Germany, Inc.," *Deutsche Welle*, May 15, 2005; and Richard Milne, "Tweedy May Review Its German links over VW Row," *Financial Times*, December 2, 2005.

66. See Gourevitch and Shinn, *Political Power and Corporate Control*, 205-28; and Hoepner, "Corporate Governance in Transition," 27-28.

67. Hancké, *Large Firms and Industrial Adjustment*, 57-87; and Schmidt, *From State to the Market?* 393-416.

68. See Michel Goyer, "The Transformation of Corporate Governance in France and Germany: The Role of Workplace Institutions," working paper no. 02/10 (Cologne: Max Planck Institute, 2002); and Peter Hall, "The Politics of Adjustment in Germany," in *Ökonomische Leistungsfähigkeit und Institutionelle Innovation*, ed. F. Naschold, D. Soskice, B. Hancké, and Ü. Jurgens (Berlin: Edition Sigma, 1997).

69. See Streeck, *Social Institutions and Economic Performance*, 49-55.

70. Culpepper, "Individual Choice, Collective Action, and the Problem of Training Reform," 286.

71. *Ibid.*, 301.

72. See Marc Maurice, François Sellier, and Jean-Jacques Silvestre, *The Social Foundations of Industrial Power: A Comparison of France and Germany* (Cambridge, Mass.: MIT Press, 1986), 65-73.

73. *Ibid.*, 77.

74. See Culpepper, "Individual Choice, Collective Action, and the Problem of Training Reform," 276-77; and Walter Muller-Jentsch, "Germany: From Collective Voice to Co-management," in *Works Councils: Consultation, Representation and Cooperation in Industrial Relations*, ed. Joel Rogers and Wolfgang Streeck (Chicago: University of Chicago Press, 1995).

75. Michel Goyer, "The Transformation of Corporate Governance in France and Germany," 26; and Wolfgang Streeck, "Successful Adjustment to Turbulent Markets: The Automobile Industry," in *Industry and Politics in West Germany: Toward the Third Republic*, ed. Peter Katzenstein (Ithaca, N.Y.: Cornell University Press, 1989), 129.

76. David Marsden, *A Theory of Employment Systems* (New York: Oxford University Press, 1999), 121-38.

77. *Ibid.*, 98.

78. A good analysis of the reorganization of the practices of work floor organization in France is Danièle Linhart, *La Modernisation des Entreprises* (Paris: La Découverte, 1994).

79. Culpepper, "Individual Choice, Collective Action, and the Problem of Training Reform," 278.

80. Goyer, "The Transformation of Corporate Governance in France and Germany," 25.

81. See Hancké, *Large Firms and Industrial Adjustment*, 57-82.

82. Richard Whitley, *Divergent Capitalisms: The Social Structuring and Change of Business Systems* (New York: Oxford University Press, 1999), 38-44.

83. See Linhart, *La Modernisation des Entreprises*, 57-64; and Arndt Sorge, "Strategic Fit and the Societal Effect: Interpreting Cross-National Comparisons of Technology, Organization and Human Resources," *Organization Studies* 12, no. 2 (1991): 161-90.

84. See David Marsden, *A Theory of Employment Systems*, 103-4; and Maurice, Sellier, and Silvestre, *The Social Foundations of Industrial Power*, 60-65.

85. See Maurice, Sellier, and Silvestre, *The Social Foundations of Industrial Power*, 59-120.

86. Michel Crozier, *Le Phénomène Bureaucratique* (Paris: Le Seuil, 1963); and Geert Hofstede, *Culture's Consequences: International Differences in Work Related Values* (London: Sage, 1980).

87. See Linhart, *La Modernisation des Entreprises*, 23-47.

88. See Danièle Linhart, "The Shortcomings of an Organizational Revolution That Is out of Step," *Economic and Industrial Democracy* 14, no. 1 (February 1993): 49-64.

89. See Linhart, *La Modernisation des Entreprises*, 48-64; and Sorge, *The Global and the Local*, 180-82.

90. The dual nature of this development—change in practices of workplace organization combined with stability in power relationships—testifies to the importance of the distinction between institutional framework and the mode of coordination that follows from these institutions. See Hall and Thelen, "Institutional Change and the Varieties of Capitalism," for an analysis of this crucial distinction.

91. See Whitley, "The Institutional Structuring of Organizational Capabilities," 669-79.

92. Marsden, *A Theory of Employment Systems*, 38.

93. Carl Kester, "Industrial Groups as Systems of Corporate Governance," *Oxford Review of Economic Policy* 8, no. 3 (Autumn 1992): 24-44.

94. Maurice, Sellier, and Silvestre, *The Social Foundations of Industrial Power*, 90-100.

95. Whitley, "The Institutional Structuring of Organizational Capabilities," 669-79.

96. See Streeck, "Successful Adjustment to Turbulent Markets," 131-32.

97. Maurice, Sellier, and Silvestre, *The Social Foundations of Industrial Power*, 79-84.

98. Marsden, *A Theory of Employment Systems*, 133.

99. See Maurice, Sellier, and Silvestre, *The Social Foundations of Industrial Power*, 69-73; and Streeck, *Social Institutions and Economic Performance*, 36-40.

100. Maurice, Sellier, and Silvestre, *The Social Foundations of Industrial Power*, 79-84.

101. See Sorge, "Strategic Fit and the Societal Effect," 168-76.

102. See Whitley, "The Institutional Structuring of Organizational Capabilities," 669-79.

103. See Streeck, *Social Institutions and Economic Performance*, 36-40.

104. For a discussion of the problems engendered by the constant modification to the codes of training practices, see Gary Herrigel and Charles Sabel, "Craft Production in Crisis: Industrial Restructuring in Germany during the 1990s," in Culpepper and Finegold, *The German Skills Machine*.

105. For example, thirty-one new occupations were defined and ninety-seven were updated and modernized between 1996 and 1999. See Jill Rubery and Damian

Grimshaw, *The Organization of Employment: An International Perspective* (London: Palgrave Macmillan, 2003), 130.

106. Culpepper, *Creating Cooperation*, 57.

107. For a full discussion of the macro effects of interaction between institutions in different spheres of the economy, see Hall and Franzese, "Mixed Signals"; and Hall and Soskice, "An Introduction to Varieties of Capitalism," 17-33.

108. See Campbell, *Institutional Change and Globalization*, for a subtle analysis of the problem of measuring and assessing institutional change.

109. For a discussion of the concept of latent institutions, see Kathleen Thelen and Sven Steinmo, "Institutionalism in Comparative Politics," in *Structuring Politics: Historical Institutionalism in Comparative Analysis*, ed. Sven Steinmo, Kathleen Thelen, and Frank Longstreth (New York: Cambridge University Press, 1992), 16-18.

110. See Zysman, *Governments, Markets, and Growth*, 99-169.

111. See Pepper Culpepper, "Institutional Change in Contemporary Capitalism," *World Politics* 57, no. 2 (January 2005): 173-99, for an analysis of the stability of ownership concentration in Germany.

112. See Hall and Thelen, "Institutional Change and the Varieties of Capitalism," 30-37.

113. The original thesis of this argument is Kathleen Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (New York: Cambridge University Press, 2004).

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